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SUBJECT: HELPING POLAND HELP ITSELF ON ENERGY SECURITY

REF: SEPTEL

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Classified By: DEPUTY ECON COUNSELOR, L. GRIESMER, REASONS 1.4 B, D

11. (C) Summary: Poland continues to look to the USG to work with it to ensure its energy security in view of what it considers a significant threat from the government of Russia and Russian energy companies. Continuing a dialogue on energy security issues with Poland and the EU will assist the USG in achieving our energy security policies in the region. Poland should develop a broad consensus on how to guarantee its energy security that will outlast changes in governments.

The establishment of a new "Energy Czar" will help the GOP regain its voice in international fora. The USG should explore ways to work with Poland on exploiting its abundant coal resources in an environmentally friendly manner. We should also encourage Poland to develop oil storage in salt caverns using technology from the Idaho National Laboratory. We should continue to work with Poland, Lithuania, Latvia, and Estonia to construct a replacement for the Ignalina nuclear power plant using U.S. technology and equipment. In all discussions with the GOP and Polish government officials we should continue to emphasize the importance of commercial solutions. End Summary.

12. (C) Septel discussed the status of Poland's existing energy security projects. This cable contains recommendations for how the USG can continue to work with the GOP on an issue of paramount concern to the GOP. The GOP admires USG efforts to enhance European energy security. Both the Kaczynski-led PiS government and Tusk-led Platforma government follow USG energy security policies and statements closely. The PiS government, with its statist approach, often requested USG assistance in approaching commercial companies and other governments on its behalf. While that appears to have abated under the new government, discussions with the GOP should continue to emphasize that commercial solutions are paramount to successful energy projects.

13. (C) The most important step we can take with Poland on energy security is continuing to discuss USG efforts in Europe and Eurasia with GOP officials. Polish energy officials closely follow events in the Caspian and Brussels, but often feel left out of the loop and value our efforts to keep them informed. DAS Bryza's upcoming visit will be an excellent opportunity to update GOP and company officials on the progress of infrastructure projects including Burgos-Alexandropoulos (which is considered competition for the Odessa-Brody-Plock-Gdansk line), Nabucco, South Stream, and TGI. Polish officials will also be interested in the status of negotiations between Turkey and Azerbaijan, Azerbaijan and Turkmenistan, Shah Deniz volumes, cross-Caspian oil transport, and Slovak efforts to regain control of the Transpetrol stake owned by Yukos. Finally, they will be interested to learn about USG discussions in Brussels, and our assessment of EU movements toward a common energy policy. In return, Polish officials will update us on their discussions with Ukrainian, Azerbaijani, and Kazakhstani officials, as well as the EU. Continuing discussions on these and other energy-security issues will be greatly appreciated by the GOP. As Poland becomes more involved in the region, and a more credible voice in the EU, it is possible that Poland will support policies that align with the USG.

Develop a Broad Consensus on Energy Projects  
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14. (C) Implementation of Polish energy security projects

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has been severely hampered by the Polish political system. Every time a new government is elected, the first thing it does is study the energy security projects approved by the previous government. By the time the review is completed, there is generally not enough time to implement the projects, given the long lead-time necessary for energy sector investment. Establishment of a broadly based commission to study Poland's energy security needs and recommend projects and policies to address those concerns could forestall future problems. In conversations with Polish officials - in government and opposition - we should encourage such an approach that could lead to a policy that benefits all Poles.

Energy sector privatization could also accomplish this goal, as private companies would not be subject to the dictates of the government and would be able to plan projects for the long-term. However, the previous government opposed privatization of energy companies on national security bases, and the current government is also reluctant to privatize energy firms.

Establish a new "Energy Czar" or POC  
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15. (C) While former Deputy Minister of Economy Naimski had his detractors, even those who disliked his policies and methods believe that Poland needs a new "Energy Czar". To date, the Tusk government has not appointed anyone who can fill Naimski's shoes. While Deputy Prime Minister and Minister of Economy Pawlak retains energy security in his brief, he does not have the time or background to devote to energy security issues. Many observers complain that Pawlak is so focused on the coal sector which employs many of his supporters, that he ignores the other energy sectors. For example, PKN Orlen President Heydal has not yet met with Pawlak, despite the fact that Orlen is Poland's largest company. The PM's point man on energy issues, Wojciech Zajackowski, Chief Advisor to the PM for Energy Security Issues, does not have the access to information or ability to influence companies, that Naimski held. While some argue that Naimski had too much influence and power, no one

disputes the fact that he played an important role in strategic policy formation. If the aforementioned commission could develop a policy consensus, an "Energy Czar" might no longer be necessary, but until then, both companies and other countries long for a point of contact in the government who is knowledgeable on energy issues.

#### Coal Resources and Carbon Capture Storage

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¶16. (C) Poland's vast coal resources (some estimate 400 years of usage) are similar to those of the U.S. Using its abundant coal would improve Poland's energy security but creates an emissions problem, especially in light of EU emissions caps. The GOP complains that it does not have the resources to study or implement carbon capture storage technology, and hopes that the EU will provide funding for two pilot projects. Poland is now a member of US EPA's Methane-to-Markets and was interested in DOE's FutureGen project. DOE approaches to Poland on similar projects would be very welcome by the Ministry of Economy. As the US works with the EU and the international community to design new emissions targets, we may find that the GOP will be more sensitive to U.S. concerns than other EU partners.

#### Oil Storage in Salt Caverns

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¶17. (C) IEA and EU membership led to new requirements for oil storage facilities, which are in short supply in Poland. The previous GOP designated state-owned OLPP (pipeline and logistics operator) to construct oil storage. OLPP officials

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led a multi-agency visit to the Idaho National Laboratory and Strategic Petroleum Reserve to see how the U.S. designed and implemented oil storage in salt caverns similar to those in northern Poland. The Tusk government recently changed the management of OLPP, stalling the project. In the meantime, PKN Orlen and Lotos, frustrated with the slow pace of OLPP, have begun to study constructing their own oil storage facilities. The USG should continue to encourage the GOP to build adequate storage facilities - both as a way of meeting its IEA and EU requirements as well as providing an opportunity for the use of U.S. technology and hardware.

#### Nuclear Power

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¶18. (C) As discussed septel, Poland is in discussions with the governments of Lithuania, Latvia, and Estonia about participating in a consortium to build the replacement to the Ignalina Nuclear Power Plant. Construction of the plant would be accompanied by construction on an "energy bridge" between Lithuania and Poland, tying the Baltic countries into the European power grid and reducing their dependence on Russian energy. The complexity of the four-country negotiations has slowed the project considerably. In the meantime, French government officials have busily waxed enthusiastic about French nuclear technology. Embassy Vilnius requested that U.S. TDA sponsor a study trip to the U.S. for officials of the four countries to familiarize them with U.S. technology and capacity. This trip will provide valuable information and contacts to Polish officials with no real nuclear industry expertise. Other invitations to GOP officials from the Nuclear Regulatory Commission, Department of Energy, and contacts with local governments with nuclear facilities could cement Polish support for nuclear energy and the Ignalina project.

#### Gas From Iran

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¶19. (C) In February, state-owned PGNiG announced that it signed an MOU to negotiate a future agreement to explore for gas in Iran. Numerous approaches to GOP officials requesting

information revealed that none had knowledge of the potential investment, and most were disturbed by the project. State ownership of PGNiG can be used to support our common objectives of limiting foreign investment in Iran. Any future conversations with PGNiG and GOP officials should reiterate USG concerns about the proposed investment, reminding the GOP that it controls the management board of PGNiG and therefore can stop the investment.

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